

NHS Dumfries and Galloway

External Audit Plan for the financial year ending 31 March 2018

Audit and Risk Committee 18 December 2017 and finalised February 2018

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Our audit at a glance



Performance materiality is set at 75% and trivial is 5% of materiality. This reflects minimal audit adjustments in prior year and our understanding of NHS Dumfries and Galloway in a year 2 audit cycle.



Materiality is set at 1.5% of gross expenditure based on 2016/17 audited information (£5.6 million). In the prior year we used 1% of gross expenditure.



We have identified a significant risks of management override of controls and revenue and expenditure recognition as set out in International Auditing Standards (ISAs UK) and the FRC's Practice Note 10.



We fulfil our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work.

An audit underpinned by quality and adding value to you



At the planning stage we have identified further inherent audit risk over the valuation of land and buildings and recognition of the new Dumfries and Galloway Royal Infirmary



Our audit is undertaken in accordance with the Code of Audit Practice and reflects the wider scope nature of public audit. Our wider scope risks identified are: Financial management, and Financial sustainability over the medium term and governance and transparency.

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the relevant International Auditing Standards (ISAs) (UK and Ireland) and the Audit Scotland Code of Audit Practice 2016.

Our overall objective is a robust, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- professional scepticism
- a focus on audit risks and key areas of management judgement
- sharing our wider insights across the sector (Scotland and UK)
- use of specialists to support our work where relevant
- using IDEA our data analytical software to effectively and efficiently test your balances
- clear and upfront communications, with regular communication during the year
- Reporting with focused actions which will support you in improving your controls/operations
- We will aim to not duplicate the work of your internal auditors. We will consider the internal audit plan for 2017/18 and identify any particular areas of risks that we either need to reflect in our approach or are relevant to our wider scope audit work. We will continue to review internal audit work throughout the year and maintain and ongoing, open, dialogue with internal audit.

Specific areas we will look to add value to NHS Dumfries and Galloway during 2017/18, identified as part of our planning work and reflection on prior year include:

- We will actively share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Audit and Risk Committee, identifying particular areas for consideration.
- Should any new accounting changes or governance updates emerge during the year we will provide a briefing for the Audit and Risk Committee. We will also pro-actively work with management during the year to discuss any emerging matters and seek to reach agreement on the treatment of these in advance of year-end.
- We will share the Scottish Public Sector Transparency report we produced for Audit Scotland at the end of December 2017, alongside our UK Grant Thornton Transparency Report.

External Audit deliverables for 2017/18 – Audit Committee

- External Audit Plan (this document)
- Governance and Transparency report and audit quality briefing (Issued to Audit and Risk Committee members in March)
- Annual Report to those Charged with Governance (June 2018)
- Audit opinion (June 2018)
- Management letter of representation (June 2018)

2017/18 Deliverables as set out in the Audit Scotland planning guidance (October 2017)

- Confirmation of agreed fee by end of February 2018
- National Fraud Initiative - completed Auditor checklist (February 2018)
- Current Issues returns to Audit Scotland covering matters of ministerial or Auditor General interest and best value elements (January and July 2018)
- Submission of fraud returns to Audit Scotland – 27 April 2018
- Submit accounts and electronic version by end of June 2018
- Submission of NHS Minimum data set (2 July 2018)

Planned Audit Scotland publications which may be relevant to NHS Dumfries and Galloway

- Digital developments and projects – risks and issues
- Supporting Scotland's economic growth (Spring 2018)
- Changing models of health and social care (Autumn 2018)

Audit approach and materiality



We undertake your audit in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the annual report and accounts e.g. Performance Report, the Accountability report including the Corporate Governance Report and Governance Statement, management commentary, that are consistent with the disclosures in the financial statements
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

Materiality

In performing our audit we apply International Standards on Auditing (UK) 320:

Materiality. Our materiality for 2017/18 is shown below. We will revise this on receipt of the unaudited financial statements for 2017/18 once received.



Overall materiality

We have calculated overall materiality in line with gross expenditure, as is recognised as a common measure in the public sector. We have removed contributions to the Dumfries and Galloway Integration Joint Board to ensure the base expenditure reflects actual costs incurred. In the context of NHS Dumfries and Galloway's activities we feel it is appropriate to set our materiality at 1.5% (2016/17: 1%). Under our audit methodology we typically set materiality within the benchmark range of 0.5% up to 2%.

Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. Based on our audit experience in 2016/17 we have increased this for 2017/18 to 75% (65% in prior year). This does not impact on the financial statement balances we undertake substantive testing on, as all balances are in scope per prior year, but will impact on sample sizes.

Trivial

Under ISA 540 we are required to set an amount below which we consider misstatements would be clearly trivial, and therefore when accumulated we would not expect that they would have a material impact on the financial statements. The Code of Audit Practice requires auditors to report at no more than £250,000. We have therefore set our reporting threshold in accordance with the Code.

Misstatements above trivial (corrected and uncorrected) will be reported to the Audit and Risk Committee in our Annual Report to those charged with governance.

Going concern considerations

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

A risk based audit methodology

Our understanding of NHS Dumfries and Galloway

This is our second year as the external auditors of NHS Dumfries and Galloway appointed under the Audit Scotland framework. In 2016/17 NHS Dumfries and Galloway received funding of £322 million, consisting of £311 million of core funding and £11 million of non-core funding, and delivered a cash releasing saving of £11 million against core revenue resource limits. While the Board achieved its financial targets, this was delivered through non-recurring savings of £5.2 million and management recognise the need to develop a sustainable operating model.

NHS Dumfries and Galloway continues to face significant financial and operational challenges. The Board has been relatively protected from public finance reductions with an anticipated baseline uplift of 1.5% expected in 2017/18. However, demand and cost pressures mean the organisation faces a significant challenge in the current year and beyond to deliver services in a sustainable manner. The increase in service demand, challenges in retaining and recruiting medical staff and consequent reliance on medical locums, makes developing a financially sustainable operating model increasingly challenging.

The New Dumfries and Galloway Royal Infirmary opened to patients in December 2017 representing a significant capital investment from the Board. The Board previously banked £7 million of surplus in previous years with the Scottish Government and this is expected to be released over 2017/18 and 2018/19 (£4m and £3m respectively) to support dual running costs with the opening of the new hospital and implementation of the clinical and service change programme. The new hospital project represents a key element in supporting the delivery of the Board's strategic objectives and delivering the targeted quality of care in a sustainable manner.

Overview of our audit risks identified at planning and our proposed approach			
The Risk	Risk of fraud in revenue	Risk of fraud in expenditure	Management override of controls
	<p>As set out in ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In 2016/17, the Board's Highland's income included £219 million of income commissioned by the IJB. This is formally agreed at the start of the year and not considered judgemental. We therefore do not consider this revenue stream as a significant risk. We consider the risk to be most prevalent in transactions and balances at the year end. We focus our testing on other material revenue streams including non-IJB hospital and community income, family health income, and other operating income.</p>	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). Asset out in Practice note 10 (revised) which applies to public sector entities. We consider the risk to be most prevalent in transactions and balances at the year end.</p>	<p>As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. override of controls is present in all entities.</p>
Our planned response	<ul style="list-style-type: none">Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriateConsider income cut off procedures and substantive testing over pre and post year end balancesA focus on recoverability of balances at the year end	<ul style="list-style-type: none">Perform cut off at year end on pre and post year end transactionsto ensure appropriately reflected within the financial statementsWalkthrough of the key expenditure controls in placeRegularity – Expenditure incurred in accordance with the type/nature of NHS Dumfries and Galloway as an organisation	<ul style="list-style-type: none">A focus on understanding how/where management override of controls may occurReview of the controls over journal entriesUnderstanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policiesReviewing unusual and/or significant transactions including the reasonableness of material provisions or estimates

Other areas of audit focus

Through our audit planning process we identify areas and accounts that due to the nature of a transaction, disclosure or account balance in the financial statements are inherently more at risk of material misstatement within the financial statements. These are areas where the potential risk of material misstatement cannot be reduced to remote. While we do not consider these to represent significant risk we highlight them as areas of specific audit focus.

Overview of other areas of audit focus identified at planning and our proposed approach

The Risk

Our planned response

Valuation of land and buildings

In accordance with the Government Financial Reporting Manual (FReM), NHS Dumfries and Galloway holds property, plant and equipment at fair value. Valuations of land and buildings are reassessed by professional valuers under a five-year programme, with adjustments in intervening years to reflect valuation movements since the last full valuation.

As at 31 March 2017, NHS Dumfries and Galloway held land and buildings of over £280 million. While we have no underlying concerns around the basis of valuation, given the value of assets held, the new NHS Dumfries and Galloway Royal Infirmary site becoming operational in the year, and the level of estimation in the valuation applied, this is considered a inherently higher risk area.

- We will review the valuations undertaken in year by the independent valuer including the basis of the valuation
- We will review management's assessment of impairment risk
- We will review the classification of PPE to ensure this is appropriate, depreciated in line with NHS Dumfries and Galloway policies and complies with the FReM.

New Dumfries and Galloway Royal Infirmary

The New Dumfries and Galloway Royal Infirmary opened to patients in December 2017 representing a significant capital investment from the Board. As at 31 March 2017 a total of £186 million of the total forecast £212.6 million of construction costs had been recognised with a corresponding liability recognised in the accounts. The construction is being funded through the Non Profit Distributing (NPD) model.

With the hospital completion in year, and the material value of this transaction, it is important that the liability and in year transactions are appropriately reflected in the accounts.

- We will review the final finance model, following completion of the construction on the new hospital to confirm the obligations under the agreement are appropriately reflected in the financial statements
- We will review the reasonableness of the basis of recognising annual service payments within the financial statements and how this is apportioned across capital, finance and operating costs.

Specific areas of focus – lower materiality applied

During the course of our audit we may apply a lower level of materiality to specific balances or transactions in the financial statements. This reflects areas where there is a greater degree of interest or sensitivity on the amounts reported in the financial statements. Examples include the Remuneration and Staff Reports where due to the nature of the amounts reported we will apply a lower level of materiality.

Wider scope – what this means for the external audit in 2017/18

Financial sustainability

NHS Dumfries and Galloway continues to face significant financial and operational challenges. The LDP identified that savings of £22 million were required for 2017/18. Increased pressures on demand as well as rising costs pressures particularly through payroll, prescription and general inflationary pressures represent a significant challenge to the Board. Furthermore, the uncertainty around the potential impact of Brexit on future finances and workforce creates additional challenges.

In recent years while management have delivered against financial targets, there has been a reliance of non-recurring in year savings. It is critical for the longer term sustainable savings are achieved.

Our Response: We will continue to discuss financial sustainability with NHS Dumfries and Galloway Management. We will review the financial plans in place, including the scenarios set out, the governance of the plans and regular reporting future financial scenarios.

Financial management

The Health Board achieved its financial targets in 2016/17. However, this was achieved through non-recurring savings of £6 million and a one-off approved transfer of capital to revenue funding of £2.5 million. With the level of savings required in 2017/18 being even more challenging than previous years, it is essential that robust financial management arrangements are in place to ensure that it can continue to meet patients needs.

Our Response: We will review NHS Highland's financial management arrangements informed through the work of internal audit and the high level financial framework of policies and procedures. This will include financial planning and monitoring arrangements in place.



Best value

Governance and transparency

No specific governance and transparency risks have been identified for 2017/18.

We will continue to consider, through discussions with management and review of minutes, NHS Dumfries and Galloway's overarching governance arrangements and how the arrangements in place promote openness and transparency, and support the cultural values of NHS Dumfries and Galloway.

Lastly we recognise the regional partnership agenda and NHS Dumfries and Galloway's involvement in the West Region, working closely with NHS Ayrshire and Arran and NHS Greater Glasgow and Clyde. We will consider how these arrangements are progressing during 2017/18 and the impact on the Board's strategic priorities, including the link to governance over these arrangements and contribution to the Board's longer term financial sustainability plans.

Value for money

No specific risks were identified in relation to NHS Dumfries and Galloway's arrangements for effectively utilising its resources and arrangements in place to continually improve services. NHS Dumfries and Galloway has a clear strategic framework in place which aligns the organisation's vision and values to supporting strategy and quality framework.

NHS Dumfries and Galloway recognise that financial and demand pressures puts significant challenge on the delivery of performance targets with two areas in particular: waiting times and delayed discharges, requiring focus.

We will consider NHS Highland's performance management framework and how they capture and measure performance and outcomes. We will also consider progress against the key strategic objectives.

Our planned work, like our financial statements work, is risk based and proportionate. We will continue to develop our understanding over the four dimensions and conclude on these in our final report, based on the work we have undertaken during the year.

Appendices

Key audit deliverables and our team

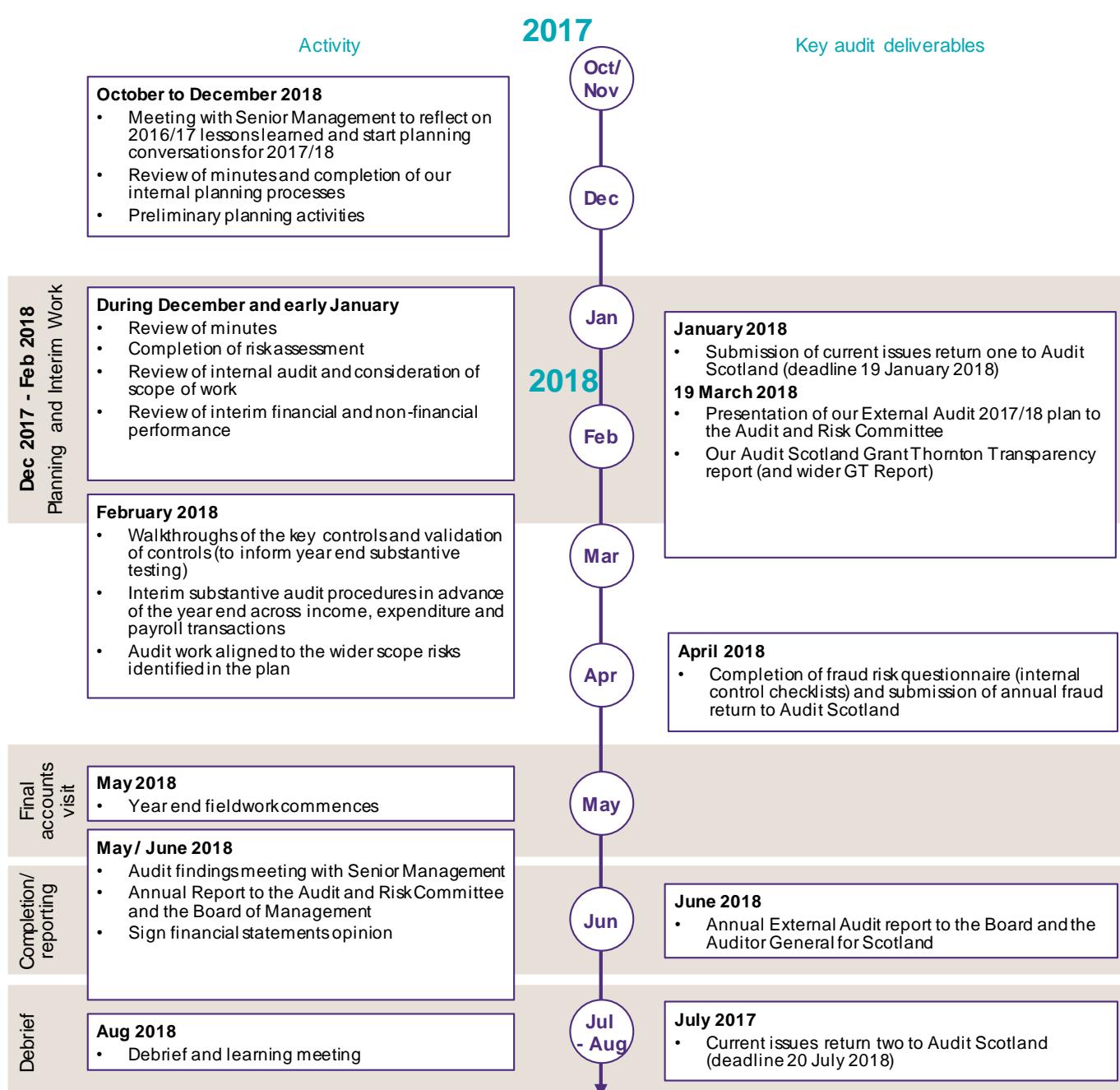
Independence and fees

Fraud arrangements

Respective responsibilities

Communication of audit matters with those charged with governance

Key audit deliverables and our team



Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	109,060
Pooled Costs	15,760
Contribution to Audit Scotland costs	6,580
Contribution to Performance Audit and Best Value	0
2017-18 Fee	131,400

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. We have agreed with management to set the fee for 2017/18 at this baseline.

Our fee assumptions include:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and NHS Dumfries and Galloway activities will not change significantly from planned
- NHS Dumfries and Galloway will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such as provisions and valuations of assets are supported by an independent specialists.

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at NHS Dumfries and Galloway.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for NHS Dumfries and Galloway this is assumed to be the Audit and Risk Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding management's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is NHS Dumfries and Galloway responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with NHS Dumfries and Galloway to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

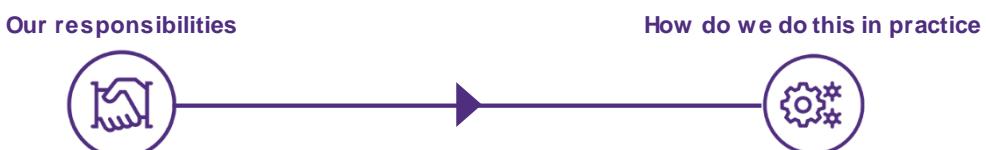
In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing NHS Dumfries and Galloway arrangements in response to the national fraud initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on an annual basis (no later than end of April 2018)

Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	NHS Dumfries and Galloway Responsibilities
Corporate governance	<ul style="list-style-type: none"> • Establishing arrangements for proper conduct of its affairs • Legality of activities and transactions • Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> • Preparing financial statements which give a true and fair view of their financial position • Maintaining accounting records and working papers • Putting in place systems of Internal Control • Maintaining proper accounting records • Preparing and publishing an annual governance statement, management commentary and remuneration report • Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> • Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value
Fraud and error	<ul style="list-style-type: none"> • Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed



- Undertake statutory duties and comply with professional engagement and ethical standards
 - Provide an opinion on financial statements
 - Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
 - Notify the Auditor General when circumstances indicate a statutory report may be required
 - Demonstrate compliance with wider public audit scope
 - By reviewing and providing judgements and conclusions on NHS Dumfries and Galloway arrangements including those across the wider scope of audit dimensions.
 - Consideration of the effectiveness of performance management arrangements
 - Suitability and effectiveness of corporate governance arrangements in year
 - Financial position and arrangements for ensuring financial sustainability in the medium to longer term
 - Review of other information in line with our knowledge and understanding of NHS Dumfries and Galloway
 - Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of NHS Dumfries and Galloway accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures	•	
Significant findings from the audit	•	
Significant matters and issues arising during the audit and written representations that have been sought	•	
Significant difficulties encountered during the audit	•	
Significant deficiencies in internal control identified during the audit	•	
Significant matters arising in connection with related parties	•	
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements	•	
Non-compliance with laws and regulations	•	
Unadjusted misstatements and material disclosure omissions	•	
Expected modifications to the auditor's report, or emphasis of matter	•	

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to NHS Dumfries and Galloway Management and the Audit and Risk Committee.



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